

# SCHEDULE 1040C-ME

## WORKSHEET FOR COMPOSITE FILING OF MAINE INCOME TAX FOR NONRESIDENT OWNERS

2005

Attach this worksheet to the composite return filed on Form 1040ME.  
For purposes of this worksheet, the term "owner" refers to a partner or shareholder of a pass-through entity.

For tax period 1/1/05 to 12/31/05 or		MM	DD	YY	to	MM	DD	YY
Entity Name					Federal Employer ID No.			
Contact Person: First Name			MI	Last Name				
Telephone Number								
Number of owners participating in composite filing				Total number of owners of the entity				
1. Maine apportionment factor (Form 1065ME/1120S-ME, line 4d)				1.				
2. Entity Income or loss (Form 1065ME/1120S-ME, line 4e)				2..				
3. Income or loss apportioned to Maine (Form 1065ME/1120S-ME, line 4f)				3..				
4. Total percentage of ownership interest of participating owners (express as a decimal)				4.				
5. Composite income or loss (line 3 x line 4)				5.				
6. Tax (See instructions on reverse side). Enter this amount on Form 1040ME, line 20 ...				6.				
<b>Important :</b> Check here if Method A is used to calculate tax (see instructions).								

## Maine Composite Income Tax Return Filing Instructions

### Are nonresident individuals who are owners of a partnership/S corporation subject to Maine income tax?

A *nonresident* individual is subject to Maine income tax based on *Maine-source income*. All income derived from or effectively connected with the carrying on of a trade or business within Maine is Maine-source income and that income is subject to Maine tax if the business is either domiciled in Maine or has nexus with Maine. An entity has nexus with Maine if, for example, it directly or through agents maintains an office or other place of business, executes a contract, exercises or enforces contract rights, buys or sells property, or employs labor, in Maine. See *generally* MRS Rule 808 (Business Entity Nexus). *Nonresident individual owners of a partnership or S corporation do not have to be physically present in Maine to be subject to Maine tax.*

Owners of partnerships/S corporations who are not Maine residents are subject to Maine income tax on that portion of their distributive share of partnership/S corporation income apportionable to Maine based on property, payroll and sales of the partnership/S corporation. *The minimum taxability threshold in 36 M.R.S.A. § 5142(8-A) does not apply to the Maine income earned by the partnership/S corporation or to the distributive share of that income to nonresident partners/shareholders.* Partners/shareholders who are Maine

residents are liable for Maine income tax on their entire distributive share of partnership/S corporation income.

### Who may file a composite return?

A partnership/S corporation may elect to report and pay Maine income taxes on behalf of participating eligible persons on a composite (block-filing) basis. This method relieves participating eligible persons of the obligation to each file Maine income tax returns based solely on the entity income of the partnership/S corporation, but does not relieve the participating eligible persons of the responsibility for accurate and timely reporting and payment of taxes.

### Who may be included in a composite return?

A partnership/S corporation may file a composite return on behalf of its partners or shareholders who are eligible persons and who elect to participate in the composite filing. An "eligible person" is a nonresident individual for the entire taxable year who has *no Maine-source income other than entity income*. Resident partners/shareholders may not participate in a composite filing. Also, an individual may not participate in a composite filing if he or she files married joint for federal income tax purposes and the individual's spouse has Maine-source income unrelated to the entity. A nonresident Electing Small Business Trust (ESBT) or grantor trust

## **Maine Composite Income Tax Return Filing Instructions (continued)**

may also be an eligible person if the trust has no other Maine-source income other than entity income. Pass-through entities doing business in Maine may want to file a composite return on behalf of nonresident partners/shareholders in order to be exempt from the pass-through entity income tax withholding requirements for nonresident owners. See information below on the pass-through entity withholding requirement.

### **How do I file a composite return?**

**Step 1:** Complete Schedule 1040C-ME and Schedule NRC and Form 1040ME in accordance with Step 2 below. Place forms in the following order: (1) Schedule NRC; (2) Schedule 1040C-ME; (3) Form 1040ME; (4) supporting documentation and mail to: Maine Revenue Services, P.O. Box 1067, Augusta, ME 04332-1067. Returns not sent in this order may not be processed correctly.

Use either Method A or Method B to calculate the tax for line 6.

**Method A.** This method requires a pro forma Maine income tax return (Form 1040ME) for each eligible person included in the composite filing. Attach a schedule listing the name and social security number of each participating eligible person, ownership interest, federal adjusted gross income, income modifications, deductions, exemptions, taxable income, income tax, credits, and net tax. Enter the aggregate net tax amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20.

**Method B.** Multiply the income reported on line 5 by 8.5% (0.085). Enter this amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20. No Maine income modifications are allowed if using Method B.

For further guidance, see MRS Rule 805.

**Step 2:** Complete Form 1040ME as follows:

**For Tax Period.** If other than calendar year 2005, enter beginning and end dates for the year.

**Your Social Security Number.** Enter the entity EIN in a social security number format. Enter the entity name under **Your Last Name**.

**Work Phone Number.** Contact person phone number.

**Home Mailing Address.** Complete mailing address of the business entity.

**Filing Status.** Check Single.

**Residency Status.** Check nonresident.

**Line 14.** If Method B is used to calculate Schedule 1040C-ME, line 6, enter composite income/loss from Schedule 1040C-ME, line 5. If Method A was used to calculate Schedule 1040C-ME, line 6, enter the aggregate taxable income/loss of participating eligible persons.

**Line 19.** Enter the same amount as entered on line 14.

**Line 20:** Enter the amount from Schedule 1040C-ME, line 6.

**Line 23.** Enter the same amount as entered on line 20.

**Line 24.** Use Maine Schedule A to calculate any **business credit** the entity may be eligible to claim. Lines 9-18 of Schedule A are considered Maine business credits; the amounts allocated to participating members may be claimed in their entirety, up to the Maine tax liability. Carryover provisions may apply. Attach a copy of Schedule A to the return. See MRS Rule 805.05 for more information.

**Line 26.** Subtract line 24 from line 23 and enter net tax amount.

**Line 27.** Enter amount from line 26.

**Lines 28a-d.** If participating eligible persons have 1099s with Maine

withholding, then enter the withheld amount on line 28a (copies of the 1099s must be attached to the return). Enter the total amount of estimated tax payments, 2004 credit carried forward, and any Real Estate Withholding tax payments allocated to participating eligible persons on line 28b. Enter any payment made by extension on line 28c. Leave line 28d blank.

**Line 29.** If total payments are more than net tax, enter the amount of overpayment on this line. Skip to line 33.

**Line 30.** If net tax is greater than total payments, enter the amount of underpayment on this line. Skip to line 35.

**Line 33.** Enter the amount from line 29.

**Lines 34a-b.** Enter the amount to be carried forward to 2006 on line 34a. Enter any amount to be refunded on line 34b.

**Lines 35a-c.** Enter the amount from line 30 on line 35a. Enter on line 35b any underpayment penalty (attach Form 2210ME). Be sure to check the box if you used the annualized income installment method of calculating the underpayment of estimated tax penalty. Enter the total of lines 35a and 35b on line 35c.

**Enclose with the composite return** (Form 1040ME) a copy of federal Form 1120S, all pages through schedule K, or if a partnership, federal Form 1065, all pages through the distribution of income, a copy of the Maine Worksheet for Composite Filing (1040C-ME) and Schedule NRC, Income for Nonresident Partners or Shareholders Included in Composite Return. If using Method A for calculating Schedule 1040C-ME, line 6, also enclose a complete copy of each participating eligible person's federal return and related K-1s.

### **Do owners of a partnership/S corporation have to withhold or pay estimated tax?**

All pass-through entities doing business in Maine are required to withhold income taxes from nonresident owners' distributable income. The withholding is based on the nonresident member's share of Maine-source income and the amount withheld is based on the highest appropriate tax rate (8.5% for individuals, trusts, estates and other pass-through entities, 8.93% for corporations). A pass-through entity may qualify for a conditional exemption of the withholding requirement for participating members under the composite filing exemption. In order to qualify for this exemption, the entity must:

- collect a Composite Filing Participation Statement (Form 941CF-ME) from each nonresident eligible person who wants to participate in the group filing. This statement must be obtained prior to the withholding due date otherwise applicable to the member.
- make estimated payments (Form 1040ES-ME) on behalf of the composite filing group as long as the aggregate Maine income tax liability is greater than \$1,000. All participants in the composite return are grouped together and treated as one filer for estimated tax purposes. If the tax liability of the composite group is anticipated to exceed \$1,000, the entity must make four equal estimate payments in order to avoid the penalty for the understatement of estimated tax.
- file a composite return.

For more information, visit our web site at [www.maine.gov/revenue](http://www.maine.gov/revenue). Pass-through entities required to withhold must pre-register with Maine Revenue Services.